# Madhav Infra Projects Limited

June 21, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 174.65 | **CARE BBB+(Triple B Plus) Under credit watch with negative implications** | **Placed under credit watch with negative implications** |
| Long-term/ Short term Bank Facilities | 375.00 | **CARE BBB+/CARE A3+ (Triple B Plus / A Three Plus) Under credit watch with negative implications** | **Placed under credit watch with negative implications** |
| **Total facilities** | **549.65 (Rupees Five hundred Forty Nine crore and Sixty Five lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) have been placed under 'Credit watch with negative implications' in view of delay in publishing of its financial results for the quarter and year ended March 31, 2019 within the stipulated timeframe. CARE will take a view on the ratings once the said financial results are published on the stock exchange and the exact implications of the above on the credit risk profile of MIPL become clear.

The ratings assigned to the bank facilities of MIPL continue to derive strength from extensive experience, resourcefulness and established track record of its promoters in the construction sector, long term association with reputed government authorities, its moderate order book position with relatively low counter party credit risk, sizeable investment in fixed asset to support its scale of operations and stable industry outlook on account of various initiatives taken by Government of India (GoI) to improve the prospectus of infrastructure sector.

The ratings also take cognizance of successful commissioning of its three roof top solar projects aggregating 3.8 MW at various locations in Madhya Pradesh (MP) & Rajasthan by September 2018 and timely receipt of monthly payments from solar power projects.

The ratings continue to remain constrained on account of its moderate scale of operations along with decline in profitability during FY18 (refers to the period April 1 to March 31), its leveraged capital structure, moderate debt coverage indicators, high working capital intensity of its operations, geographically concentrated order book, susceptibility of its profitability to volatile raw material prices owing to fixed price nature of contracts on hand and its presence in highly fragmented and competitive construction industry.

The ability of MIPL to improve its order book through greater geographical diversification, scale up its operations through timely execution of the existing orders in hand, improve its profitability and capital structure along with efficient management of its working capital requirements shall be the key rating sensitivities.

Furthermore, MIPL's ability to achieve envisaged Plant Load Factor (PLF) from operational solar power plants and Chambal hydro plant along with timely receipt of payments from the respective off-takers shall also be crucial from the credit perspective.

Notwithstanding above, any new debt-funded capex or investment by MIPL in its group companies adversely affecting MIPL's financial risk profile shall also be a key rating monitorable.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Vast experience of the promoters and established track of the group in road & solar power sector:*** MIPL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana. Mr Ashok Khurana has an experience of more than three decades in executing various projects in the construction sector (roads & solar power).

The group has an established track record in executing relatively large-sized road projects and has demonstrated sound project execution capability with timely execution of the contracts. MIPL is an in-house engineering, procurement & construction (EPC) arm of the group. The group's infrastructure development activities are well supported by the extensive experience of the promoters and MIPL.

[1] *Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications*

***Moderate order book position with relatively low counterparty credit risk:*** As on December 31, 2018, MIPL had a moderate order book of Rs.513.07 crore [1.66x of total operating income (TOI) of FY18], reflecting good revenue visibility over the medium term. The outstanding order book is spread across three states in India. Road projects constitute 45% of the order book, followed by bridge projects at 32% and balance 23% are from solar and other civil projects. Majority of the contracts in MIPL's order book are from government entities translating into low counterparty credit risk. Execution of the orders on hand within envisaged cost and timelines remains crucial from the credit prespective.

***Stable income from own renewable energy projects with high profitability:*** MIPL has two operational solar power plants at Uttarakhand (14.40 MW) and Delhi (1 MW) and operation and maintenance (O&M) of a hydro project at Chambal. During FY19, MIPL has successfully completed three new roof-top solar power plants aggregating 3.80 MW at Kota, Bhopal and Rajasthan (except Kota). All the three projects were commissioned in September 2018. Further, MIPL had also set up few solar power plants in Rajasthan aggregating 0.40 MW for some private parties and which were also successfully commissioned during FY19.
During 9MFY19 (Provisional), all the operational solar power plants and O&M of Chambal hydro project reported total revenue of Rs.14.86 crore.

***Owns sizeable fleet of construction equipment and machinery resulting in relatively better operational efficiencies:*** In the last three years, MIPL has made significant investment in building its own fleet of commercial vehicles, equipment and machinery required for executing the project. During FY18, MIPL purchased equipment aggregating Rs.11 crore (Rs.54 crore in FY17) which augmented its gross block to Rs.139 crore as on March 31, 2018 (Rs.128 crore as on March 31, 2017). Large investment in machinery and efficient deployment of these resources helps MIPL in timely execution of the projects and generate better operational profitability. However, debt funded investment in equipment and machinery has led to increase in interest cost and total debt.

***Improved prospectus due to thrust of government on infrastructure development:*** Infrastructure sector is one of the key drivers of economic development in developing countries like India. Thrust of the government for road construction & renewable energy through initiatives such as buildup of new rural roads and upgradation of existing rural roads under Pradhan Mantri Gram Sadak Yojna (PMGSY), broadening of national highways and providing connectivity to tribal areas, targeted solar power generation capacity of 100GW till FY22 has offered various opportunities for construction companies. However, execution challenges including delays in land acquisition and forest clearances, regulatory clearances, weak financial health of discoms, bottleneck in transmission infrastructure and elongated working capital cycle due to longer gestation period of the projects beleaguer the industry.

**Key Rating Weaknesses**

***Moderate scale of operations along with decline in profitability:*** MIPL operates on a moderate base and its TOI remained largely stable during FY18. EPC segment contributed 93% (Rs.288 crore) of MIPL's TOI during FY18. While EPC income declined by 9% y-o-y, it was substantially lower than envisaged for FY18 on account of unavailability of Right of Way (ROW) & regulatory approvals and cancellation of an order due to non-availability of bank guarantee limits. PBILDT margin, albeit declined by 347 bps, remained healthy at 19.31% during FY18 owing to higher share of solar power projects in TOI which has a higher margin than EPC segment. The gross cash accruals stood at Rs.36 crore during FY18 as against Rs.42 crore in FY17.

***Leveraged capital structure and moderate debt coverage indicators:*** The capital structure remained leveraged marked by high overall gearing of 2.41x as on March 31, 2018 (2.38x as on March 31, 2017). The deterioration in overall gearing was primarily on account of increase in inter-corporate loans during FY18 and debt-funded addition of construction equipment and machinery. Owing to increase in total debt and reduction in gross cash accruals during FY18, the total debt to gross cash accruals ratio moderated to 8.95x (6.82x in FY17) and PBILDT interest coverage ratio moderated to 1.68x (2.33x in FY17). The ability of MIPL to significantly improve its capital structure over the medium term remains a key rating monitorable.

***Geographically concentrated order book:*** Operations of MIPL are geographically concentrated in the states of MP and Gujarat with 64% orders to be executed in MP, 27% to be executed in Gujarat and balance 9% in other states as per outstanding order book as on December 31, 2018. The concentration of its order book in two states exposes MIPL's growth prospects to the macro and socio-political situation in the regions. However, MIPL has an established track record in executing orders in these states and also benefits from shared resources due to proximity of projects. Nevertheless, geographical diversification of operations shall remain crucial from credit perspective.

***Susceptibility of its profitability to volatile raw material prices:*** Considering execution of a contract is spread over 18-24 months and majority of contracts of MIPL are fixed price in nature, profitability of MIPL remains susceptible to volatile raw material prices. However, this risk is partially mitigated through management's experience of bidding for the projects taking into account the likely price variation in the EPC cost.

**Liquidity: Stretched**
Average utilisation of MIPL's fund based working capital limits remained at 89% during trailing twelve months ended June 2018. Further, increase in working capital intensity of the EPC business, capex towards solar capacity & fixed assets, elongation of its operating cycle from 17 days to 60 days during FY18 and lower than envisaged cash accruals during FY18 resulted in stretched liquidity position of the company. The cash flow from operations too reduced to Rs.48 crore during FY18 as against Rs.59 crore in FY17. Incremental working capital requirements were met through bank borrowings and increase in inter corporate loans during FY18. However, comfort can be derived from the resourceful promoter group, who has regularly infused funds to support the operations of MIPL, either in form of unsecured loan or preference capital.
MIPL had free cash and bank balance of Rs.3.75 crore (excluding margin money in form of fixed deposits of Rs.38.66 crore) as on March 31, 2018 and reported cash accruals of Rs.36 crore during FY18. Against this, MIPL has committed debt repayment obligations of around Rs.37 crore in FY19. The shortfall was met through infusion of funds by the promoter group. During FY19, MIPL also sold its stake in some of its group companies in order to raise funds for bidding of new projects and reduce overall debt.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring linkages in ratings
Rating Methodology - Infrastructure Sector Ratings (ISR)
Financial ratios - Non- Financial Sector

**About the Company**
Vadodara-based MIPL (formerly known as Myraj Consultancy Ltd.) is an in-house EPC arm of the Madhav group promoted by Mr Ashok Khurana and his son Mr Amit Khurana. MIPL is also a developer-cum-operator of solar power projects and undertakes O&M of few road and hydro power projects of the Madhav group.
The promoters of MIPL were the erstwhile promoters of MSK Projects India Ltd (MSK), which was subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited (WEL; rated CARE AA-; Stable / CARE A1+)].

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 338.13 | 309.98 |
| PBILDT | 77.04 | 59.85 |
| PAT | 7.74 | 7.00 |
| Overall gearing (times) | 2.38 | 2.41 |
| PBILDT Interest coverage (times) | 2.33 | 1.68 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 40.00 | CARE BBB+ (Under Credit watch with Negative Implications) |
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 375.00 | CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications) |
| Term Loan-Long Term | - | - | March 2031 | 134.65 | CARE BBB+ (Under Credit watch with Negative Implications) |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 40.00 | CARE BBB+ (Under Credit watch with Negative Implications) | - | 1)CARE BBB+; Negative (08-Oct-18) | 1)CARE BBB+; Positive (09-Oct-17)<br>2)CARE BBB+; Stable (14-Apr-17) | - |
| 2. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 375.00 | CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications) | - | 1)CARE BBB+; Negative / CARE A3+ (08-Oct-18) | 1)CARE BBB+; Positive / CARE A2 (09-Oct-17)<br>2)CARE BBB+; Stable / CARE A3+ (14-Apr-17) | - |
| 3. | Term Loan-Long Term | LT | 134.65 | CARE BBB+ (Under Credit watch with Negative Implications) | - | 1)CARE BBB+; Negative (08-Oct-18) | 1)CARE BBB+; Positive (09-Oct-17)<br>2)CARE BBB+; Stable (14-Apr-17) | - |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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